HUMAN EVENTS

Vol. XVI, No. 52 Wednesday, December 30, 1959 Washington, D. C.

THE LIBRARY
WISCONSIN STATE COLLEGE
RIVER FALLS, WISCONSIN

News Section

FILM: *Plug for appeasement* ..... (page 1)

DE GAULLE: *Leader at Western Summit* (page 1)

USSR: *Anti-Kremlin student upsurge* ..... (page 2)

WELFARE: *HEW Budget-busting* ..... (page 3)

ARBITRATION: *Case against compulsion* (page 4)

On the Beach: The release of the "ban the bomb" Hollywood production "On The Beach" received much serious study on Capitol Hill, not as entertainment but as a potent political factor if it is widely viewed—as is expected—across the country. The appearance of the film may constitute one of the most important events of 1959, foreshadowing the psychological climate for 1960.

What disturbs political observers is the dark defeatist motif of the expertly made film. Stanley Kramer, producer of a long line of leftist hits, does a masterful job of direction.

The picture is adopted from Nevil Shute's best seller and is set in 1964 in Australia, the only nation represented as inhabited after hydrogen warfare has killed off the rest of mankind (no one knows who started it, although mention is made that "someone panicked and pushed a button"). The Australians, with a surviving American submarine crew which reports that no life exists on our West Coast (the film offers periscope shots of a lifeless San Francisco), are to die themselves in five months when fallout reaches Down Under. In the best to-hell-with-it-all manner they go about their boozing and their business.

The business is composed largely of distributing suicide pills among the populace—no question is raised as to the morality of this, apparently because no one wants to get a sick tummy from radiation in the last days and all line up obediently for their ration.

In one drinking scene, an Australian atom scientist (Fred Astaire) proclaims drunkenly that all scientists knew this would be the outcome in the event of war and that all of them signed bomb-banning petitions (but of course none signed until they developed it and it was dropped on the Japanese). A tramp (Ava Gardner) whimpers in a brandy breath: "Everybody knew what would happen, so why did they let it happen? I didn't do anything. No one I know did anything."

The film peddles the idea that the American submarine crew and the Aussies—as depicted—prefer to go to their death drinking and love making rather than in prayer, as portrayed in the excellent film "Titanic," in which families on the sinking ship prayed, the band played "Nearer My God To Thee," and lifeboat survivors offered prayers for those who went down (as indeed actually happened).

Director Kramer offers some sobering symbolism amidst all the scotch, brandy and suicide pills. There is one religious scene—a Salvation Army revival set against a street banner reading: "There is still time—brother." But its purpose seems less religious than as a means of projecting the spiritually starved film's big message—atomic disarmament at any price (the banner is flashed on the screen at the end after all are dead).

Religious reaction to the film was swift and the Rev. Daniel Poling's *Christian Herald* delivered this opinion: "The fact that religion would undoubtedly play a prominent part at such a crisis time in human existence is overlooked or disregarded except for an inadequate presentation . . . religion has no place in the conversation of the sophisticates who dominate the film. This is incredible under the circumstances."

In the opinion of the Capital, "On the Beach" is undoubtedly the greatest psychological warfare movie of the cold war and will leave Communist and the left-wing egghead cheering sections hoarse. Of greatest import will be the impression made on the mass audience of the American people. Will their reaction show that we have not retreated from the position of honor we had at Bunker Hill when Yankee farmers stood their ground and fired rusty nails out of squirrel rifles at British regulars? There is still time—brother.

The De Gaulle Story: Despite a heavy, billowing smokescreen of propaganda from the British, the attempt to portray the French President as "isolated" from all his allies and a beaten man at the Paris conference failed dismally. R. H. Shackford, veteran foreign correspondent for the Scripps-Howard Newspaper Alliance, reported that Big Charlie "dominated the Western diplomatic stage as no man has done since the heyday of Winston Churchill." He "won virtually all his major points—found no one in the Western camp ready to stand up to him," said Shackford.

What exactly happened between Ike and de Gaulle in private conference has not yet been revealed, although Press Secretary Hagerty claimed that Ike "got tough" with the French leader; the French claimed it was the other way. At any rate, the Scripps-Howard correspondent says that Ike "made no effort to force issues" with de Gaulle.

However, Diplomatic Row in Washington believes that the French leader was displeased with Ike's stand when they met. For it is known among diplomats here that the French right after the Paris meeting notified the US State Department rather brusquely that de Gaulle had

Published weekly at 408 First Street, SE, Washington 3, D. C. — Copyright 1959 by HUMAN EVENTS, INC.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

decided to change his plans for an American visit in April. Originally planning to take a two-week tour through the United States, the French President has cut down the visit to three days, all in Washington.

Behind the British effort to hem in the French at the Paris meeting, it is generally agreed, is the matter of British foreign trade.

Not the least of British worries—say informed sources—is their developing concern about France as an oil producer. The French Sahara field is beginning to pump oil to the Mediterranean, and *US News and World Report* last week reported the possibility that within five years the Sahara field will be the world's fifth petroleum producer—right behind the US, Middle East, Venezuela and Russia.

Rockefeller Blunder: When letters praising New Hampshire primary-bound Nelson Rockefeller appeared in that state's Manchester *Union Leader*, the paper attempted to interview the writers and found them nonexistent. Amidst charges from the Rockefeller camp that editor William Loeb planted the letters to make Rocky's backers look bad, the *Union Leader* hired two separate document experts to find the source of the letters. They did—the typewriter of Ralph H. Morse, who aside from owning a typewriter happened to be the public relations director for the Rockefeller forces in New Hampshire.

Unhappily Dartmouth's President John Sloan Dickey and Exeter Headmaster William Saltonstall, chieftains of the Rockefeller state organization, accepted Morse's resignation when the *Union Leader* reproduced the bogus notes for the edification of Granite State voters. Editorialized Loeb in closing the affair: "Let's have an end to hanky-panky in New Hampshire."

Boondoggle: Senator Jack Kennedy sought to gain the support of 1500 mayors and urban experts at the Denver convention of the American Municipal Association. He urged Federal aid for the civic improvements they promise the voters. His listeners smiled approval; they are eager to tell local taxpayers that they hope to get Uncle Sam to pay all or much of the cost of local projects.

Kennedy named urban renewal, water pollution, municipal airports and other civic projects, justifying Federal aid on two grounds: first, these programs are "actually national in scope;" secondly, said he, "only the last thin dime of the tax dollar goes to our municipalities."

The leader in the Federal aid drive was Philadelphia Mayor Richardson Dilworth, who said he makes at least one trip every two weeks to Washington pleading for Federal aid. HUMAN EVENTS has queried knowledgeable Quaker City taxpayers who point out that Philadelphia is one of America's richest cities and pays far more in taxes than it gets back; they would like it better if Mayor Dilworth made a trip to Washington every two weeks to fight against Federal aid for municipal programs—obtainable only if equal amounts of aid go to all the congressional districts which want something else.

However, those who know Mayor Dilworth say such an attitude would be psychologically impossible for him since he strongly believes in Big Spending Centralized Government.

Red Threat: Capitol Hill finds a timely warning in the year-end report of the Federal Bureau of Investigation.

FBI Chief J. Edgar Hoover reminds the American people: "Blindness and lethargy toward the threat posed by subversive organizations have reached dangerous proportions in many areas. This is largely responsible for the optimism and confidence which have spread throughout the ranks of the Communist party and other subversive organizations in recent months . . . . The party remains an inseparable arm of the international Communist conspiracy which is directed from Moscow."

Hoover pointed out that many of the delegates to the Communist party convention in New York earlier this month had travelled to Russia and satellite nations—travels which, Capitol Hill recalls, were only made possible by the Supreme Court decision drastically curtailing the State Department's powers to withhold passports from subversives.

● Hoover, it is noted, will celebrate his 65th birthday on New Year's Day—a fitting occasion for the grass roots to manifest its support of this patriotic American, one of the chief targets of the Communists and "liberals."

Inside USSR: The Senate Internal Security Subcommittee got a good insight into Communist activities in Southeast Asia earlier this month from testimony by Aleksandr Kasnakheyev, the Soviet intelligence agent who defected to the free world while stationed in Burma last June. More significant to alert observers in the Capital, however, although it got little attention in the Nation's press, was Kasnakheyev's revelation that there are now and have been rumblings of discontent with Khrushchev's regime in the Soviet Union.

"There was definite dissatisfaction among youth in the outbursts during [the] Hungarian revolution and immediately after," the witness said. "For instance, there were disturbances in Moscow University. I know exactly as my father's close friend is a dean of physics-mathematical faculty in Moscow University, and immediately after [the] Hungarian revolution approximately 1000 *. . . students of that faculty held a Komsomol [a Communist youth organization meeting] at which they adopted a unanimous resolution which was sent to central committee of the Communist party of the USSR. In that resolution they demanded stopping of jamming of foreign broadcasts, free distribution of foreign press, and most significant—introduction of a two-party system."*

Kasnakheyev told the Senate Subcommittee that the resolution was, in effect, a demand to end the one-party dictatorship as it exists in Russia. Nikita Khrushchev, said the former Soviet agent, spent a week at Moscow University personally investigating the source of the resolution.

The Hungary episode prompted actions of protest

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

elsewhere in Russia too. "Student disturbances were all over [the] Soviet Union, in many cities and many universities," Kasnakheyev testified.

As to his own reason for defection, Kasnakheyev said that he wanted to participate in the "struggle of all [the] free world and free nations against communism."

More on Welfare: The Health, Education and Welfare Department will ask Congress for $3.5 billion in the next fiscal year ending in 1961, reports the New York *Times*. This is a $300 million rise over what was asked for last year and represents a billion dollar hike over requests for 1958.

The budget item listed by the *Times* (and not denied by the Department which refused comment on its accuracy) supports the HUMAN EVENTS story of December 16 which noted the HEW Department was planning to balloon expenses, despite Secretary Arthur S. Flemming's pronouncement to a welfare conference that his new proposals to Congress would cut costs. (Among his "cost-cutting" proposals: abolishing residence requirements for public assistance, and a request for funds—once turned down by Congress—for a committee to investigate "causes" of juvenile delinquency and absent fathers.)

The Department for the next year now plans to spend more for education, for the Pure Food and Drug Administration (e.g., more investigations into illegal sales of stay-awake and weight reduction pills), and for health. (This year the Department piously objected to the unasked-for additional $283 million for health voted to it by Congress, promptly spent it, and will ask for even more than the $750 million it already spends on health yearly.)

But, as the *Times* points out, the biggest item administered by the Department is for social security. Although no estimate for fiscal 1961 is available, Capitol Hill expects it will rise as it has steadily risen over the years, now topping $10.5 billion a year. It may also rise since one welfare official told a HUMAN EVENTS reporter his Department planned to take widows off public assistance (which would, he said, reduce expenditures) and transfer them to social security—not listed in the Budget. Even with this bookkeeping device, HEW will be spending—on the books—more money than ever in fiscal 1961.

Vote-Day Tax-Day: Election day and income tax pay day should be combined on the same date in November, say two newspapers—the Omaha *World Herald* and the Houston *Chronicle*. The original proponent of this plan, UPI Washington bureau manager Lyle Wilson, says the attention of voters would thus be focused on the tax take when wheedled by spenderama candidates for public office.

When voters ask, "Who is going to pay for all this?" the free-wheeling spender answers: "Why bless you, my friend, the other fellow will pay for it." The answer is false, says the Tax Foundation. The amount of income subject to the first bracket rate is about $108 billion of total taxable income of $153 billion. The first bracket (the 20 per cent bracket) produces about 61 per cent of the total tax yield.

44% In Taxes: The American working man is now paying 41 per cent of his income in taxes and will be paying 44 per cent in 10 years—if not considerably more—tax experts point out. Here are their conclusions:

Social security deductions go to 6 per cent this month. Three per cent is deducted from the employee and the other three per cent is deducted from the employer, but is actually a "cost of labor." This 6 per cent total will rise by stages to 9 per cent in 1969. Withholding tax is 20 per cent and indirect taxes equal 15 per cent. Grand total, 41 per cent today; 44 per cent by 1969.

But the 44 per cent is only the beginning. If the Forand bill providing eventually free hospitalization, medical and nursing care for social security recipients is passed, at least 3 per cent more will be added. Other bills to increase social security benefits are being hatched, so tax experts see a possibility of a 50 to 55 per cent tax total by 1970.

Education: Parents who suddenly discover that their six- or seven-year-old child isn't learning to read at school seldom know what to do about it except protest, and their protests are usually ignored by the educational bureaucracy. To aid these parents, and others interested in education, in "doing something about it," the Council for Basic Education has just published *A Citizens Manual for Public Schools*, by Mortimer Smith.

Smith's *Manual* is a basic education in itself for those who are unfamiliar with current educational theory and practice, and who may be befuddled by educationist double-talk (which Smith explains plainly in a special glossary). The author succinctly summarizes the weaknesses in educationist methods of teaching English and reading; he describes and dissects the present practice of shunting slow learners and late-developing children into vocational or life-adjustment "education" which completely fails to prepare them to do anything in later life except drift.

The parent or school board member who wants to evaluate his school will find a list of over 30 questions; the answers will give him a clear picture of his school's strengths and weaknesses, and another section of the book, which suggests further sources of information, will point the way to improving his school.

Students of educational problems strongly recommend the *Manual*, which may be purchased for $1 from the Council at 725 15th St., NW, Washington 5, D. C.

The Vincible American: Emmet John Hughes, chief foreign correspondent for *Time* and a former speech

WHITFIELD DAVIDSON, United States District Judge, Dallas, Texas: "We enjoy the logic and soundness of many of the articles in HUMAN EVENTS.

"Patrick Henry said most correctly: My feet are guided by the lamp of experience. And long before him Confucius said: Wisdom is the garnered experience of man."

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

writer for President Eisenhower, has written a new book, *America the Vincible* (Doubleday and Co., $3.95), now receiving the huzzas of the "liberals."

Hughes, who has just joined the Rockefeller speech writing team, jabs generally at Republicans, but reserves his roundhouse swing for the late John Foster Dulles' policy *vis-a-vis* the Soviet Union.

Critical of Chamberlain's appeasement toward Hitler, he nevertheless feels we must appease the Russians from Germany to Taiwan. He scores "massive retaliation" and he scorns "liberation." He fumes at NATO and solemnly declares its presence prevents the Russians from evacuating East Germany and other European satellites. Says Hughes: "It [NATO] holds Soviet strength in Central Europe committed and fastened, and it makes any conception of Soviet retreat unthinkable to Soviet policy."

Claiming an American military withdrawal will roll back the Soviet forces in Europe, he proposes the same plan for Asia. The US, of course, should abandon "such actions as stubborn military defense of indefensible islands . . ." (i.e., Quemoy and Matsu) and, naturally, eventually recognize Red China.

In economic affairs he thinks the US should swell our already swollen foreign aid ("We must increase the size"), and when it comes to security checks for American employees he is annoyed at subjecting "citizens seeking to work for the United Nations to suspicious and exhaustive scrutiny."

And, finally, he assumes the world might compromise with communism as the Catholics have done in Poland—in other words, with a gun at your back. In fact Hughes says of the Polish "compromise" that it "commends itself, at least for consideration, to the globe."

It is perhaps this line of reasoning that makes Arthur Schlesinger, Jr., praise the book as "brave, wise and creative," and causes Senator John F. Kennedy to say he will keep it "close at hand."

Compulsory Arbitration

In the November 3 edition of "Executive's Labor Report," a newsletter edited by Harry C. Herman, the labor relations expert offers five telling arguments against compulsory arbitration. These arguments serve as an ominous warning of things to come if next month the Congress should react to the steel strike by passing legislation that would impose compulsory arbitration on management and labor. Mr. Herman writes:

First, compulsory arbitration if used once must become a permanent part of our national labor relations policy. Once the precedent is set, once compulsory arbitration is accepted as a legally available tool of collective bargaining, it can never be abandoned. So long as all of the parties to a bargaining agreement know that compulsory arbitration is available and will be used as a last step in their negotiations, all negotiations will be shaped to building a case for this final non-appealable step.

Second, the responsibility for all wage levels would be shifted from management and labor to the Government. If the process of negotiating a collective bargaining agreement becomes nothing more than the preparation of an arbitration case, the parties will only be interested in preparing the strongest, most partisan case possible for their point of view. To maintain their position of strength, neither party can afford to make any concessions or show any "give"—in other words, cannot afford to bargain in any meaningful sense of the word. Their function will be the preparation of a case, not the making of a decision.

Human nature being what it is, this state of affairs will be welcomed by many management and union executives. If somebody else has to make the decisions, then that same someone else has to take the responsibility for it. Management and labor are off the hook and another major portion of economic responsibility is transferred to the Government.

Third, if compulsory arbitration is used to set wages in a "basic" industry, it will be used to set wages in all industries. Leaving aside such questions as the constitutionality of permitting the Government to set the wages of one group of workers while letting others bargain freely, the practical consideration of administered wages, which is what compulsory arbitration is, forces this conclusion.

In setting wages the arbitrator must take into consideration as his most relevent data the wage patterns for industry as a whole. Thus, as a practical matter all wages would have to be administered.

Fourth, if wages are administrated, prices must be administrated. Wholesale administration of wages demands that primary consideration must be given, and a decision must be made on the size of labor's share in the economic pie. Wages cannot be administrated in a vacuum.

Necessarily then, a determination of the proportion of the gross national income that should go to labor requires a determination of the proportion that each other factor of production should receive. This cannot be done unless the size of the product can be controlled in relation to all the necessary shares. The only way such control can be exercised is through administrated prices.

Fifth, the net result of compulsory arbitration is an administrated economy. In an unadministrated market price relationships are determined by the forces of supply and demand. In an administrated market they must be determined by Government planning. In that case pricing would become as much a matter of political policy as it would of economic policy.

The incident of ownership might still be in private hands, but ownership would be merely an incident.

Compulsory arbitration is a trap—for both labor and industry.

TRIAL SUBSCRIPTIONS to **HUMAN EVENTS** for new subscribers only: 5 weeks $1. Yearly rate, $11; 6 months, $6; 3 months $3.

By first class mail, $13 a year; by airmail (including APO and FPO) $15 a year. For change of address send old address (**EXACTLY AS IT APPEARS** on the envelope of your copy of HUMAN EVENTS) and new address (with zone number if any). **ALLOW US 2 WEEKS** *to process new subscriptions and changes of address.*

Bound Annual Volume with complete index, $15. Only 1955, 1956, 1957, and 1958 volumes available.

FRANK C. HANIGHEN, *Editor and Publisher* JAMES L. WICK, *Executive Publisher*
Assistant Editors: JOHN R. BENEDICT, NICHOLAS T. NONNENMACHER, GEORGE O. FOWLER
W. B. HICKS, JR., *Business Manager* FRANK CHODOROV, *Contributing Editor*

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Vol. XVI, No. 52 HUMAN EVENTS December 30, 1959

THE LIBRARY WISCONSIN STATE COLLEGE RIVER FALLS, WISCONSIN

Article Section I

The Federal Highway Program

By JOHN F. DUE
Professor of Economics, University of Illinois

THE FEDERAL AID HIGHWAY ACT of 1956 essentially converted the basic interstate highway system of the United States from a state to a Federal undertaking. True, the states still own and operate the highways, but the Federal Government since 1956 has taken over virtually complete—90 to 95 per cent—financing of the key 41,000 mile interstate network. With this change goes increased control over policy, control which is likely to grow rather than decline over the years. And there are constant pressures from local communities to add more and more miles to this basic network. To what extent can this great increase in the role of the Federal Government in the highway field be justified? Or, if adequate justification is lacking, how can it be explained?

The great increase in the role of the Federal Government is in no way justified on the grounds of efficiency. The states can attain all economies of large scale production which are available in the highway construction and maintenance field. While the new program does leave direct operation of the highway systems in the hands of the states, the increased Federal supervision may easily reduce rather than increase efficiency.

The "rich vs. poor state" argument, that Federal aid is necessary to bring levels of performance up to some minimum level in the states unable to finance the activities themselves, has little or no validity in the highway field. The states with the greatest highway problems are on the whole the wealthy states, ones with higher per capita income and wealth. These states are certainly able to finance their highway programs themselves; no equalization is necessary in this field, as it is within states in the field of education, for example.

This brings us to the argument: can the great increase in Federal participation be justified on the grounds that the Federal Government has access to taxes for financing highways that the states cannot use to a sufficient extent to meet expenditure needs? Much of the defense for the new program appeared to rest on the assumption that this was the case. Actually, there is no justification on this basis. The new Federal plan is one of financing the additional expenditures by levies on highway users, as it should logically be. But in this field the principal sources of revenue, the gasoline tax and the truck use tax, are identical with the levies employed by the states. And in this field there are no significant economic objections to higher state levies. The Canadian provinces use gasoline taxes almost twice as high as ours, yet without serious difficulty or complaint. The Federal Government, instead of being able to make significant new taxes available for highway support, merely taps the same levies as the states, a step which the states themselves could have taken. But, of course, once the Federal taxes are pushed up, further increases by the states become more difficult.

ON THE WHOLE, THEREFORE, the 1956 shift in financing has extremely little justification, while it inevitably increases the relative role of the Federal Government in this sphere. Financing and supervision of highway building is further transferred away from the persons directly receiving primary benefit. Already Federal control over highway matters which could well remain within state jurisdiction has increased, and further control is inevitable. For example, states are prohibited from permitting the sale of gasoline or other products from establishments on the rights of way. This procedure is common on toll roads, and is not only convenient to the motorist, but a source of important royalty revenue for the toll systems. Naturally gas stations cannot be permitted every few hundred feet, and entry to the new routes must be limited, but there is no possible justification for the Federal Government saying to the states that they cannot allow any service station concessions on the highways. There was a long and bitter debate over the prohibition of billboards along the new highways. Regardless of the merits of the issue itself, there is a good case for leaving jurisdiction over this type of question to the states.

In view of the limited justification which can be advanced for the changed role of the Federal Government, how can it be explained? In the decade following World War II, many highways quickly become obsolete due to increasing traffic. Construction had been almost halted during the war, while many highways deteriorated rapidly. A tre-

Published weekly at 408 First Street, S.E., Washington 3, D. C. • Copyright 1959 by HUMAN EVENTS INC.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mendous jump in traffic, compared to 1939 levels, occurred after the war, with a particularly great growth in trucking. Many highways suffered from basic inadequacies, particularly their routing through the centers of urban areas rather than bypassing them, excessive curvature, and numerous fringe business developments. As a consequence, building of completely new routes, rather than mere improvement of existing ones, was often imperative.

The obvious solution to the problem was an increase in state motor fuel and license taxes. The great increase in car and truck use had materially increased the bases of these taxes, and there was no reason why they could not meet the problems of the 'fifties just as they had met those of the 'twenties. Some states did make necessary changes. But most did not. There were several reasons. Many governors and state legislators were pledged to oppose any tax increases whatsoever. In taking this position they reflected the popular attitude of the period that all taxes were too high already, that government expenditures of all types should be cut, not increased. In many states mere increases in rates were inadequate, because obsolete allocation formulas would have channeled far too much of the additional revenue into local rural roads instead of main inter-city highways and metropolitan expressways, where the need was greatest. Changes in the formulas were opposed by farm interests which dominate the legislatures of many states. A further important obstacle in the way of tax increases was the organized opposition of the petroleum and commercial motor vehicle industries.

BY THE EARLY 'FIFTIES the problem had become acute in many states. The use of the toll principle had permitted the building of some of the most urgently needed routes, but was not feasible for many, and a number of states were completely unsympathetic to the resurrection of a system of highway finance which had been discarded a century before. With state inactivity continuing, pressure was directed to the Federal Government to take a hand.

In 1954 President Eisenhower appointed a committee, known for its chairman as the Clay Committee, to investigate the highway problem and make recommendations for change. The committee report, issued in January, 1955, recommended a sharp increase in Federal participation in highway financing, the additional funds to be obtained by borrowing. Congress very wisely abandoned the loan feature, but otherwise (in 1956) accepted most of the recommendations, and the new highway program came into existence.

Thus directly and immediately the increased role of the Federal Government was the outgrowth of the Clay Committee report. But the basic cause was the failure of the states to act, to provide additional funds channelled to meet urgent demands for improved roads. The states could certainly have financed the program as well as the Federal Government. A one cent gas tax in all states will yield exactly the same amount of revenue as a one cent Federal tax. There is no magic, or any gain at all, in Federal use of the tax in this instance. On the whole, the states have no one to blame but themselves for this major loss in their relative role in the field. And the organized groups which fought the state tax increases must share a part of the responsibility.

A FEW CONCLUDING COMMENTS should be made about the development of the Federal program itself, which point to basic weaknesses in the process of determination of levels of government activities. The new highway program followed very closely the recommendations of the Clay Committee so far as expenditures are concerned. These were developed by highway engineering experts on the basis of requirements necessary to bring the major network to certain engineering standards, relating to width, curvature, right of way, intersections at grade, railroad crossings, and the like. Little or no consideration was given to the possibility of improving existing roads (by rerouting around cities, etc.) or to the relative merits of the recommended highways compared to ones with slightly inferior physical standards but much lower cost. The highway problem was certainly a very real one, and higher standards were urgently needed. But it is also possible to exaggerate the problems, and to plan for types of roads which, while reasonable in terms of certain engineering standards, may be far more expensive than ones which do almost as good a job.

ORDER BLANK

HUMAN EVENTS, 408 First Street, SE, Washington 3, D. C.

Send me _____ reprints of "THE FEDERAL HIGHWAY PROGRAM" at $_____

[] Payment enclosed [] Bill me

Additional copies of this 2-page Article: single copy 15c (coins not stamps); 15 copies $1; 35 copies $2; 125 copies $5; 300 copies $10; 1,000 copies $20. In 5,000 lots $15 per thousand. Unless otherwise ordered, reprints are sent by fourth-class mail, which takes ten days to two weeks for delivery. For first-class mail delivery of 2-page articles, add ½c per copy; for airmail, add 1c per copy.

Enter my subscription [] 5 weeks for $1 [] 1 year for $11

Name _____

Street _____

City _____ Zone _____ State _____

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Vol. XVI, No. 52 HUMAN EVENTS December 30, 1959

Article Section II

The US Savings Bond Tragedy

THE LIBRARY
WISCONSIN STATE COLLEGE
RIVER FALLS WISCONSIN

By THE HON. HOWARD BUFFETT

Trustee for the Americans for Constitutional Action; former Republican Congressman, State of Nebraska

THE SCRIMMAGE between the Administration and the Democratic majority in Congress over interest rates on Government bonds last session focused temporary attention on US savings bonds. The Democrats, smarting with resentment over many defeats, used the request for higher bond interest rates as a scapegoat for their general frustration. But they finally relented on savings bonds only, and gave congressional approval to a raise in that rate to 4¼ per cent from the previous 3.26 top. The Treasury promptly boosted the savings bond interest to 3.75 per cent, retroactive to June 1, 1959.

Despite furious verbal exchanges, both sides generally avoided any talk or action that would bring into public view the investment record of savings bonds. That subject was strictly taboo.

Savings bonds were first offered in 1935. From the beginning the Treasury pulled out all the stops in glorifying the merits of these securities. In the early years the claim was made that "US savings bonds are the safest investment in the world today."

While current advertising often takes a less superlative tone, even now the Treasury could hardly be accused of moderation in its sales promotion. Certainly it cannot be denied that the methods used have brought impressive results. An estimated 40 million Americans, mainly of the small income group, are the owners of over $40 billion worth of US savings bonds.

The bond sales record of the Treasury stands in sharp contrast to the investment record to the bondholders. Technically, saving bonds have been absolutely "safe," just as the advertising claimed. Every investor in them has gotten his dollars back on demand plus interest from zero to 3.26 per cent, depending on how long he held the bonds.

BUT THIS REPAYMENT performance tells only part of the story. For it is shocking, yet true, that since 1939 no large group of Americans has been hurt worse financially than that which placed its nest-egg in savings bonds.

Depending on the date the bonds were bought, up to 50 per cent or even more of the funds these bondholders loaned to their Government have been destroyed by the rotting of the dollar. The total loss in the purchasing power of the principal and interest has been well over $21 billion, a gigantic sum even in these days of colossal spending.

During this same period, of course, all holders of fixed dollar obligations suffered similar losses. Without minimizing their losses, it is our purpose here to examine the facts and circumstances surrounding the specific disaster to those who had directly entrusted the Government with their savings.

Fair play, to this special category of 40 million thrifty citizens, has been entirely within the control of successive Administrations and Congresses. It is the Government that created the inflation that has raised the cost of living 100 per cent since 1939. Likewise, it is the Government that fixes the dollar income of the various groups paid out of the US Treasury.

So it is instructive to learn how Congress has treated not only savings bondholders, but also several other groups whose income is determined by the lawmakers. Then it will be possible to decide whether or not savings bondholders have been treated fairly.

For this purpose four groupings, each of which depends directly on Congress for income increases to offset the rising cost of living, have been selected. The list is short, but representative.

(1) US CONGRESS (Members of the Senate and House of Representatives): For each $100 paid a member of Congress in 1940, he or she now receives $225, partly tax-free. In addition, fringe benefits have been boosted. Thus his income has been increased upwards of 125 per cent.

(2) FEDERAL CIVIL SERVICE EMPLOYEES: For each $100 of salary an average median grade of civil service employee received in 1944 (earlier figures not readily available), an employee having comparable stature today receives $249. His income has been increased 149 per cent.

(3) SOCIAL SECURITY RECIPIENTS: For each $100 that a retired single worker received in 1940 from the SS system, he may now receive $211. This is an increase of 111 per cent. Moreover, this income is Federal tax-free, in contrast with savings bond income, which is fully taxable under the Federal income tax law.

(4) ADC BENEFICIARIES: This grouping consists of families receiving payments under the aid-to-dependent-children legislation. Using national average figures, for each $100 paid to an ADC family in 1942, a similar family in 1959 may receive $296 in governmental payments. This is an increase of 196 per cent. (Note: the 1942 payment formula was different, so an exact comparison is impossible. The figures used here, and on the other groups, are calculated to achieve a fair comparison, and are based on statistics supplied by the Library of Congress Reference Department. Also, some payments vary according to correlative legislation and contributions by the various states.)

(5) US SAVINGS BONDHOLDERS: For each $100 of interest paid or accrued in 1942, the amount paid or accrued (before the recent boost) had been raised by Congress to $130. The percentage increase to the savings bondholders' income was thus 30 per cent between 1939 and 1959. (All savings bonds had to be held to maturity to get the interest rates used in this comparison.)

Published weekly at 408 First Street, SE, Washington 3, D. C. • Copyright 1959 by HUMAN EVENTS, INC.

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

In tabulating the foregoing comparison, every effort has been made to present a fair and complete picture. Like all statistics, these can easily be distorted to present a different conclusion.

Nevertheless, the overall situation they reveal is clear. In the first place, they show that successive Administrations and Congresses have been thoroughly aware of the rising cost of living. Secondly, they show that the Government has taken prompt and vigorous action to protect and preserve living standards for various other groups whose income comes direct from the US Treasury.

The boost in income for the other groups listed ran from 111 per cent to 196 per cent, compared with a 30 per cent increase for bondholders—and even that much only if the bondholder held his savings bonds to their stated maturity.

ARE SAVINGS BONDHOLDERS a class of second-rate citizens, entitled to less consideration than the other groupings mentioned? If an affirmative answer to this question exists, it could explain the harsh discrimination of which these Americans have been the victims.

However, a careful examination of characteristics common to most savings bondholders discloses no qualities that could possibly justify such unequal treatment.

Indeed, savings bondholders would seem to be just the opposite of a second-rate group. This is made clear when the following attributes, common to most of them, are considered:

- *They have by voluntary act shown a superior degree of trust in the Government.*
- *They have been the most responsive to patriotic appeals by Government for financial support.*
- *Despite low incomes, they have demonstrated the stamina to forego comforts now in order to be self-supporting in their declining years.*
- *They possess the industry and self-restraint to have achieved frugality in their personal finances.*

Is there any item in this list of qualities that justifies a Federal policy of spoliation of these thrifty and patriotic people? If so, it would be revealing to hear it explained.

There is another characteristic of most of these bondholders which, while not a plus item, certainly does them no discredit. It is that the great majority of them are, as reported by the Treasury, in the low income group. This means that they can *least afford to lose.* Yet so far the Government has caused them to be among those who have lost the most from inflation.

It would be sobering to conclude that these better citizens have experienced unfair treatment simply because they were not organized into a pressure group.

But, despite the proven cruel injustice suffered by savings bondholders, it is not now proposed that Government put escalator clauses or cost-of-living bonuses on these bonds. Such a course would seem to have much equity in it, but it does not strike at the cause of the injustice. Such practices are frequent in the final stages of a ruinous inflation, and the protection they provide is largely illusory.

While no action can be expected that will temper the loss already suffered, the Government could put into effect interest rates on outstanding bonds in line with current money rates. This would mean considerably higher payments than the boost of one-half of one per cent just announced by the Treasury.

THE ONLY REAL HOPE for savings bondholders is the re-establishment of a sound dollar. Tragically for America, that goal seems as far distant as ever, despite the belated and modest efforts made in that direction this year by President Eisenhower.

In the background there is a political aspect of this problem that should not be overlooked. The integrity of our electoral system ultimately depends on the preservation of economic independence by the small and middle income citizens. Unless this grouping can exist without Government subsidies, the term "free elections" can and will become a mockery. The savings bonds episode is the most devastating blow this segment of our electorate has ever been dealt.

Despite the obvious disaster of this situation, there is a lesson of transcendent value that can be gained from it.

Indeed the terrible loss suffered could be worth its cost if our people would learn from this episode that Government is not benevolent, is not humanitarian, is not filled with compassion for low income people.

If the delusion that Government ever truly embraces such noble attributes could be revealed for the mirage that it is, then this sad chapter in governmental finance could pave the way for a recovery of public understanding of the perils of the State.

The story of US savings bonds should teach us that most political talk professing deep concern for the "little people" is nothing more than oratory designed to catch votes.

The learning of that lesson in all its ramifications could bring about a revitalized America—equal to the challenges of the modern world, both at home and abroad.

ORDER BLANK

HUMAN EVENTS, 408 First Street, SE, Washington 3, D. C.

Send me _____ reprints of "THE US SAVINGS BOND TRAGEDY" at $_____

[] Payment enclosed [] Bill me

Additional copies of this 2-page Article: single copy 15c (coins not stamps); 15 copies $1; 35 copies $2; 125 copies $5; 300 copies $10; 1,000 copies $20. In 5,000 lots $15 per thousand. Unless otherwise ordered, reprints are sent by fourth-class mail, which takes ten days to two weeks for delivery. For first-class mail delivery of 2-page articles, add ½c per copy; for airmail, add 1c per copy.

Enter my subscription [] 5 weeks for $1 [] 1 year for $11

Name _____

Street _____

City _____ Zone _____ State _____

PRODUCED BY UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED